

5913/60880-  
15/9/60  
14/9

The Gazette



of India

EXTRAORDINARY

PART I—Section 1

PUBLISHED BY AUTHORITY

No. 114] NEW DELHI, TUESDAY, SEPTEMBER 6, 1960/BHADRA 15, 1882

MINISTRY OF COMMERCE AND INDUSTRY

RESOLUTION

New Delhi, the 6th September 1960

No. A.E.Ind. 1(90)/60.—By a Resolution dated the 8th April, 1959, the Government of India in the Ministry of Commerce and Industry set up a Committee to enquire into the automobile industry. The Committee submitted its report on the 6th February, 1960, which has already been published.

2. Reviewing the progress made by the automobile industry since the Tariff Commission's enquiry in 1956, the Committee has remarked that the decision to grant protection to the industry was a sound one, that the achievement of self-sufficiency regarding transport vehicles was of great importance to the economy and that even in regard to passenger cars the consumer would have been far worse off, if in the present difficulties regarding foreign exchange there had been no domestic industry. The Committee considered the progress of the automobile industry satisfactory on the whole and particularly in the last few years. It also observed that most of the automobile vehicles were expected to reach 80% or more of indigenous content before the end of 1961.

3. The rate of progress has not been a uniform one. While some vehicles have achieved a high level of indigenous content, some of the manufacturers are lagging behind the programme they had submitted to Government when their scheme was approved. The Committee has drawn attention to the following difficulties confronting the industry which have hampered progress:—

- (a) The development of the industry in India began at a time when conditions were by no means propitious. The volume of demand was so low that three well-known producers of vehicles of world-wide repute, who had their assembly plants in India, preferred to close down their operations rather than take on the responsibilities of manufacturing the vehicle in India, when following the first Tariff Commission enquiry in 1953, Government decided that only firms which undertook a programme of basic manufacture should be allowed to continue.
- (b) The industry has had to face a steady change in the pattern of demand. Programmes which were first taken up for the manufacture of large American type cars and for making trucks driven by petrol engines had later to be abandoned because popular demand shifted towards smaller cars and diesel trucks.
- (c) Since 1957, the shortage of foreign exchange which made it difficult to grant import licences for the capital goods required by the industry has also retarded development to some extent.
- (d) Lack of finance has also been another factor leading to slow progress on the part of some manufacturers.

4. Government feel that while allowance should be made for the factors hampering progress as referred to above, special steps are now necessary, as the Committee itself has pointed out, to ensure quicker progress and completion of the manufacturing programmes by the end of 1961. Any manufacturer who has not already placed orders for the plant and machinery necessary to complete his programme must immediately approach Government with necessary applications for import licences as it is Government's intention that by the beginning of 1962 the import of components, either finished or semi-finished, should cease. This does not mean that the automobile manufacturers would themselves be expected to make all the items which go into the making of a vehicle. There are numerous items which legitimately belong to the ancillary industry. While automobile manufacturers develop capacity for the components which are their responsibility, Government would at the same time, give all possible assistance and encouragement to the ancillary industry to develop on right lines as indicated in para 7 below.

5. The Committee has recognised that there are certain inherent reasons for which costs in India are high. For example, the Committee's examination revealed that the price which an automobile manufacturer in the country has to pay for bought-out components and raw materials in one particular case studied in detail is more than the ex-factory price of the built-up vehicle in the country of origin. Low volume of production of automobiles in the country is another factor contributing to the high cost of production. Nevertheless, the Committee has observed that the disparity between Indian costs and overseas purchase price is capable of considerable reduction by proper supervision and control. There are certain defects in the present set-up of the industry to which the Committee has drawn attention and which need immediate steps to be taken for their rectification. There is also need for allowing greater competition among the producers now that the demand has been built up. The Committee has accordingly made the following main recommendations:—

- (a) A clear directive should be given to the automobile manufacturers to introduce within six months a satisfactory training scheme and a satisfactory cost accounting system;
- (b) The production of different firms should not be kept in leash. Subject to their keeping to their programme of manufacture they should be given enough foreign exchange to maximise their production;
- (c) Furthermore, each firm should be allowed to expand its production beyond its present capacity by installing more capital goods provided this expansion is not based on larger imports of components.

Government of India accept these recommendations of the Committee in principle. Attention of the automobile manufacturers is invited particularly to the recommendation at (a) above. Each unit will be expected to comply with it by the end of this year. As regards the recommendations at (b) and (c) above, Government propose to give due weight to these recommendations when making allotments of foreign exchange and when considering applications for licences under the Industries (Development and Regulation) Act.

6. Regarding the question of automobile prices, the Committee has recommended that while control over passenger car prices may continue, price control over commercial vehicles should be abolished. The Committee has also recommended that an ad hoc cut in the price of cars and jeeps amounting to Rs. 200 to Rs. 500 should be made applicable four months after import licences to enable the manufacturers to keep production at the highest possible level have been given. Government have given careful thought to this recommendation of the Committee and the considerations on which it is based and they feel that once production has increased substantially and the present acute shortage has eased, decontrol of prices would be desirable, but so long as the present shortage is there, decontrol of prices of even commercial vehicles is likely to lead to many abuses. As regards the cut proposed by the Committee in passenger car and jeep prices, which was in a sense linked with the decontrol of the prices of commercial vehicles, Government do not propose to enforce a cut at this stage. They note with satisfaction that as a result of informal discussions two of the car manufacturers and the firm manufacturing jeeps have recently reduced the prices of these vehicles by Rs. 200/- and Government hope that all manufacturers would further review their cost structure and reduce the prices as early as possible.

7. The Committee has discussed the significant role played by the automobile ancillary industry and has recommended several steps for its development and for establishing good relationship between it and the main producers. Government are in agreement with these recommendations generally and insofar as the industry in concerned would invite their attention to the following recommendations:

- (a) On the whole, it is undesirable even from the point of view of the ancillary industry itself to give it an assured market regardless of cost and quality,
- (b) The ancillary industry should be able to supply components at a price which does not exceed the landed cost of similar imported components which bear an import duty on the average of about 40%;
- (c) The ancillary industry will be well advised to reduce their prices for original equipment as is the practice in other countries;
- (d) In Indian conditions it would be desirable if even some of the major items, not generally considered to be the responsibility of the ancillary industry, were developed by the automobile manufacturers themselves on a cooperative basis.

On their part, Government have instructed the Central Organisation of Small Scale Industries under the Development Commissioner to create a special division for the development of ancillary industries not only for the automobile industry but for other industries as well, and the development of ancillaries in the small and medium scale sectors will be given the greatest attention during the Third Five Year Plan.

8. In regard to the Third Five Year Plan, the Committee has recommended the following targets, of capacity for the manufacture of jeeps, cars and commercial vehicles (trucks and buses):—

- (a) Jeeps—10,000 Nos.
- (b) Cars—30,000 Nos. (40,000 Nos. if an economy car is introduced).
- (c) Commercial Vehicles—60,000 Nos.

Government consider these targets to provide a reasonable working basis for formulating the development programmes of the industry. The expansion programme of the existing units to achieve the plan targets will be considered by Government in the light of the recommendations of the Committee.

9. In regard to the production of low cost car, the Committee's main conclusions are:—

- (a) There would be sufficient demand to sustain the economic production of a low cost car, without jeopardizing the production programmes already approved.
- (b) There is little prospect of any of the passenger cars at present being produced coming down to the price range of Rs. 5,000 to Rs. 7,000 indicated in the terms of reference to the Committee. It is doubtful if economies of this order could be achieved even if the entire machinery in these factories are changed and the production programme made very much larger.
- (c) To have a cheaper car, therefore, a more modest vehicle will have to be chosen and its manufacture will need to be started from the very beginning with the latest machinery to ensure economic production.

The Committee had before it a number of proposals in this behalf from various producers but only five of them were reasonably complete proposals relating to cars of acceptable standards and not to so-called miniature or bubble cars. The Committee, which was not called upon to make any final recommendation regarding the choice of any particular car, has left it for Government to take a final decision after taking into account the reports on them after they are tested in Indian conditions, the terms of collaboration, the investment involved, and other relevant factors.

10. The Government of India accept the Committee's views as set out in (a), (b) and (c) of the preceding para. The proposals which the Committee has deemed to be eligible relate mostly to cars whose ultimate price to the consumer is likely to be in the range of Rs. 9,000/- or so. Government of India feel that the aim should really be to select, if possible, a car that will on the one hand be sturdy and give a really long period of trouble-free service, and on the other

hand be available around Rs. 6,500/- to the major body of the consumers, inclusive of transport charges, distributors' commission, taxation, etc. This would mean that the ex-works price should be around Rs. 5000/-. The choice of a car, therefore, assumes crucial importance, as it involves not only the consideration of the mechanical attributes of the vehicle but also a realistic assessment of its production costs in India. No less important would be the nature and quantum of the investments involved, both in rupees and in foreign exchange. With a view to economise in the latter an important consideration in selecting the car would be the extent to which existing capacity in the country, whether in the public sector or in the private sector, could be utilised in its production.

All these matters require detailed consideration at technical levels. It has accordingly been decided that an Expert Committee should be set up to go into these questions. The Expert Committee would be asked to submit its report within a period of four months. It would be possible to take a final decision about the production of a low cost car only after the Expert Committee has reported. Government have also decided that in case the Expert Committee considers the manufacture of the low cost car feasible within the price range indicated above the project will be undertaken in the public sector.

11. The Committee has also made a number of other suggestions and recommendations for consideration of the Government dealing with close scrutiny of the prices charged by the ancillary industry to the main producers, licensing of import of spare parts and servicing tools to small fleet owners and Automobile Associations, arresting the growing imbalance between diesel oil and petrol, fixation of the rate of duty on automobile components, supply of steel requirements, establishment of adequate foundry/forge capacity for the automobile industry, and uniformity on an all-India basis in fixing the Registered Laden Weights of vehicles, etc. Government are generally in agreement with the line of thinking advanced by the Committee and appropriate action will be taken to implement them to the extent possible in consultation with all concerned.

D. S. JOSHI, Additional Secy.